



Quantum Graphite Limited
ABN 41 008 101 979

2021

ANNUAL FINANCIAL REPORT

for the year ended
30 June 2021

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This Annual Financial Report covers Quantum Graphite Ltd (**Quantum, QGL or the Company**) as a Group consisting of Quantum Graphite Ltd and its subsidiaries, collectively referred to as the "Group". The financial report is presented in the Australian currency, which is Quantum's functional and presentation currency.

Quantum is a company limited by shares, incorporated and domiciled in Australia. Its offices are:

Principal Place of Business

Quantum Graphite Ltd
349 Collins Street
Melbourne VIC 3000

Registered Office

Quantum Graphite Ltd
349 Collins Street
Melbourne VIC 3000

Website

quantumgraphite.com

Corporate Directory

Directors:

Sal Catalano
(Executive Director)

Bruno Ruggiero
(Chairman and Independent Non-Executive Director)

Steven Chadwick (resigned 30 November 2020)
(Executive Director)

Robert Osmetti
(Independent Non-Executive Director)

David Trimboli
(Independent Non-Executive Director)

Company Secretary:

Rochelle Pattison

Principal Business Office:

349 Collins Street
Melbourne VIC 3000
Telephone: + 61 3 8614 8400

Auditors:

RSM Australia Partners
Level 21
55 Collins Street
Melbourne VIC 3000

Solicitors:

PwC Legal
Level 19
2 Riverside Quay
Southbank VIC 3006

Home Stock Exchange:

Australian Securities Exchange
Rialto Tower, 525 Collins Street
MELBOURNE VIC 3000

ASX Codes:

QGL – fully paid ordinary shares

Share Registry:

Link Market Services Ltd
Tower 4, 727 Collins Street
Docklands VIC 3008

Directors' Report

The Directors of Quantum Graphite Ltd present their report on the Company and its subsidiaries, for the year ended 30 June 2021. Director details including relevant personal information is included in the Remuneration report.

PRINCIPAL ACTIVITIES

Our principal activities are the exploration, mining and processing of natural flake graphite and the manufacture of flake graphite products. The Company has historically supplied high purity large flake graphite powders from its Uley 1 mine operation and processing facility to the refractories markets in Europe and North Asia.

Our future activities are based on the development of the Uley 2 mine operation, the next stage of development of the Company's flagship Uley flake graphite deposit.

OPERATING AND FINANCIAL REVIEW

The net loss for the year was \$2,068,370 (2020: \$960,529) after providing for income tax. Our financial performance is broadly in line with plan. The Company's exploration commitments are fully funded and application for a Commonwealth grant to assist with the acceleration of funding of our research and development program is pending as at the date of this report.

Responding to Market Developments

In the prior year we completed the feasibility study for the construction of the new process plant and related facilities. During this year we recognized that certain advanced processing pathways for our production will be essential to positioning the Company for the developing growth markets for natural flake graphite. This, combined with several pressing market factors, has driven the Board's decision to both upgrade and supplement the feasibility study by:

- (a) Undertaking an expanded research and development program to support the further processing of our production, i.e., beyond that outlined in the feasibility study; and
- (b) Upgrading the feasibility study to ensure a direct path to the expansion of production to approximately 90,000 tonnes per annum.

The upgrade of the feasibility study addresses several market factors, some of which have been exacerbated by the impacts of COVID-19. In particular, the unreliability of coarse flake supply from mainland China and the extraordinary disruption to global supply chains have highlighted the need for customers to develop alternative supply channels.

The other market factors are the increasing interest from the rapidly evolving thermal energy storage market and the recent upwards revision of EV sales forecasts. Unlike COVID-19, these factors are not recent developments but structural developments in the grid connected energy market intensified the focus on the near-term supply of coarse flake.

Over a year ago, we foreshadowed the possibility of such an upgrade but these recent developments have crystalized our position and underpin the need to increase our reserves and resources. The current drilling activity of the Eastern Conductor is an important step in increasing our resources and ultimately extending the Uley 2 mine plan. Over the longer term the ongoing exploration of our substantial exploration lease, EL 6224, will deliver the significant increase to our resources base essential to maintaining generational sustainable supply of the highest quality coarse flake.

The scope of our research and development program has been expanded to include further proprietary test work aimed at increasing the purity of the coarse flake and its suitability as the essential raw material for thermal storage media products.

Directors' Report (continued)

Marketing Activities

Finally, our marketing activities remain focused on the thermal applications market. Delivery of samples to our target customers was the subject of constant interruption due to COVID-19 and the resulting restrictions from accessing the Uley inventory at the Uley mine site. We expect to resume sample delivery by the end of December 2021. A positive development was the joint venture concluded with The Sunlands Co. This secured an important customer and elevates the Company as the only flake graphite producer with major exposure to the renewables generation market. Importantly our joint venture position provides a real opportunity for the Company to directly participate in the global grid network energy markets.

Equity Capital Raising

We were very pleased with the equity capital raisings in March 2021 and June 2021. In each of these capital raisings shares were issued at a premium to the last traded price in September 2020 when the Company's shares were suspended from trading. The pricing of the share issue in June 2021 was struck at more than a 75% premium to the last traded price in September 2020.

Mining Titles

All mining titles are current and remain in good standing. On 23 March 2021, the Company was notified of the renewal of EL6224 to 12 October 2021. The Company will lodge the renewal application for EL6224 on or before 30 September 2021.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group that occurred during the reporting period and that has not otherwise been disclosed in this report or the financial statements.

DIVIDENDS

There were no dividends paid or declared during the reporting period or to the date of this report.

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

LIKELY DEVELOPMENTS

The likely developments for the Group include the update of the definitive feasibility study.

DIRECTORS' MEETINGS

The number of Directors' meetings held during the reporting period and the number of meetings attended by each Director is as follows:

Directors	Board Meetings		Audit Committee Meetings	
	Attended	Entitled to Attend	Attended	Entitled to Attend
S Catalano	7	7	3	3
B Ruggiero	7	7	3	3
S Chadwick (resigned 30 Nov 2020)	0	0	-	-
R Osmetti	7	7	-	-
D Trimboli	7	7	-	-

At this time, there are no separate Board committees other than the audit committee as disclosed above, as all matters usually delegated to such committees are handled by the Board as a whole.

UNISSUED SHARES UNDER OPTION

There are 28,571,429 options over ordinary shares in Quantum Graphite Limited held by Chimaera Capital Limited in which Mr Catalano has an indirect shareholding during the financial year and at the reporting date.

Directors' Report (continued)

The Directors details including special responsibilities and interests in securities are summarised in the table below.

NAME	EXPERIENCE & EXPERTISE	SPECIAL RESPONSIBILITIES	INTEREST IN SHARES	INTEREST IN OPTIONS
Sal Catalano BJuris., LLB, FITA, Executive Director	Mr Catalano has extensive experience across business, the law and investment banking. He brings strong leadership skills and international business experience to the Board. He was a former Principal of Paloma Partners' securities financing group, Head of Donaldson Lufkin & Jenrette's (Pershing Division) Asian securities business and a Director of Credit Suisse's Alternative Capital Group. He is a Principal of the Chimaera Financial Group.	Chairman of audit committee.	Indirect interest in 59,380,667 shares via an indirect interest in Chimaera Capital Ltd and SC Capital Pty Ltd.	Indirect interest in 28,571,429 options.
Bruno Ruggiero BE (Mech), Grad Dip MinSc (Ext. Met), Grad Cert Eng Tech (Struct) Chairman and Independent Non-Executive Director	Bruno has multiple degrees in engineering and over 30 years' global experience in the minerals industry, crossing all facets from scoping to operations, and is a founding partner of the publicly listed Lycopodium Ltd. Currently Technical Director with Lycopodium Minerals, Bruno sets the technical direction and standards for new project initiatives that Lycopodium Minerals undertakes globally.	Member of audit committee.	Direct interest of 514,286 shares and indirect interest in 17,216,147 shares.	Nil
Steven Chadwick BASc (Metallurgy) Executive Director (resigned 30 November 2020)	Mr Chadwick is a Metallurgical Graduate of the WA School of Mines with 40 years' experience in the mining industry, incorporating technical, operating and management roles, as well as a strong metallurgical background. Mr Chadwick is now a metallurgical consultant specialising in project management and feasibility studies for a range of local and international clients. He was a founding director of BC Iron and a former managing director of Coventry Resources, PacMin Mining and Northern Gold. He was a director and consulted to major Canadian miner Teck Resources Australian subsidiary company for 10 years.	Member of audit committee. (resigned 30 November 2020)	NA – resigned 30 November 2020	Nil

NAME	EXPERIENCE & EXPERTISE	SPECIAL RESPONSIBILITIES	INTEREST IN SHARES	INTEREST IN OPTIONS
<p>Robert (Bob) Osmetti BE (Civ), MIE Aust, CPEng, Independent Non-Executive Director</p>	<p>Mr Osmetti is a Civil Engineer with over 39 years' experience in project management and construction management of projects globally in an EPCM role including for major contractors in the minerals and construction sectors.</p> <p>He brings direct experience in all aspects of project implementation, estimating, scheduling and construction management as well as the management of a number of feasibility studies for major resource projects in Australia and overseas.</p> <p>Mr Osmetti is one of the founding partners of Lycopodium and has held diverse senior positions within the Lycopodium group including as founding Managing Director of the Lycopodium joint venture between Monadelphous and Lycopodium, Mondium Pty Ltd. He currently serves as a non-executive director of Lycopodium Limited.</p>	Nil	Indirect interest of 11,058,351 shares.	Nil
<p>David Trimboli BCom, Independent Non-Executive Director</p>	<p>Mr Trimboli is an experienced global investor with significant experience in commodities financing and trading. He was formerly a long serving senior coal trader at the world's largest commodities trading group, Glencore International AG, and was a key member of the Glencore team when the group successfully completed its IPO in London and Hong Kong. Mr Trimboli has undertaken significant investments activities and holds diverse interests in commodities, industrial minerals, real estate and technology in Australia and internationally.</p> <p>Mr Trimboli is the founder of Seefeld Investments, with offices in London, Zug and Perth and has been an integral part of the rapid growth of the Seefeld Investments business. He brings a wealth of experience in cultivating partnerships and key commercial relationships globally.</p>	Nil	Direct interest in 514,286 shares and indirect interest of 14,463,655 shares.	Nil

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

The Directors of Quantum Graphite Ltd present the Remuneration Report in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

The Remuneration Report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based remuneration

A. Principles used to determine the nature and amount of remuneration

The Company's remuneration policy has been designed to align objectives of key management personnel with objectives of shareholders and the business, by providing a fixed remuneration component and offering specific long-term incentives through the issue of options and / or performance rights. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel and Directors to run and manage the Company. The key management personnel of the Company are the Board of Directors and Executive Officers.

The Board's policy for determining the nature and amount of remuneration for its members and key management personnel of the Company is as follows:

- o The remuneration policy, setting the terms and conditions for the executive Directors and key management personnel, is developed by the Board. All key management personnel are remunerated on a consultancy or salary basis based on services provided by each person. The Board annually reviews the packages of key management personnel by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- o The Board may exercise discretion in relation to approving incentives, bonuses, options and performance rights. The policy is designed to attract the highest calibre of key management personnel and reward them for performance that results in long-term growth in shareholder wealth.
- o Key management personnel were also entitled to participate in the Company's Performance Rights and Option Plan as approved by shareholders at the 2013 AGM.
- o The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the Company, except in relation to KPI options. Additionally, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in the Performance Rights and Option Plan.

During the reporting year, performance reviews of senior executives were not conducted.

Performance based remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and other key management personnel. This has been facilitated through the issue of options and/or performance rights to key management personnel to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (CONTINUED)

B. Details of remuneration

Details of the nature and amount of each element of the remuneration of the Company's key management personnel ("KMP") are shown below:

2021 Director and other Key Management Personnel Remuneration

	Short term benefits - Salary and fees \$	Post-employment benefits – Super-annuation \$	Total \$	% of remuneration that is equity based	Salary and Fees Owing at 30 June 2021 \$	Share-based payments (\$)		Total
						Issued for FY 2019 and FY 2020 remuneration	Issued for FY 2021 remuneration	
Directors								
S Catalano	72,000	-	72,000	100%	36,000	92,427	42,845	135,272
B Ruggiero	72,000	-	72,000	100%	36,000	92,427	42,845	135,272
S Chadwick	36,000	-	36,000	100%	-	92,427	42,845	135,272
R Osmetti	48,000	-	48,000	100%	24,000	52,292	28,563	80,855
D Trimboli	48,000	-	48,000	100%	24,000	52,292	28,563	80,855
Total	276,000	-	276,000	100%	120,000	381,865	185,661	567,526

*During the year, the Directors were issued equity shares as compensation for salary and fees outstanding for the period from 1 September 2018 to 31 December 2020.

2020 Director and other Key Management Personnel Remuneration

	Short term benefits - Salary and fees \$	Post-employment benefits – Super-annuation \$	Total \$	% of remuneration that is equity based	Salary and Fees Owing at 30 June 2020 \$	Share-based payments issued** \$
Directors						
S Catalano	72,000	-	72,000	100%	144,000	-
B Ruggiero	72,000	-	72,000	100%	144,000	-
S Chadwick	72,000	-	72,000	100%	144,000	-
R Osmetti	72,000	-	72,000	100%	96,000	-
D Trimboli	72,000	-	72,000	100%	96,000	-
Total	360,000	-	360,000	100%	624,000	-

**No shares were issued to directors during the year ended 30 June 2020 as remuneration for present / past services provided.

Transactions with KMP

Transactions with key management personnel are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Chimaera Capital Limited ("CCL") (an entity related to Sal Catalano) provided corporate, administrative, technical and asset management services to the Company including provision of the registered and main business office. The asset management services include care and maintenance of the Uley mine site, maintenance of the tailings storage facility, the works associated with the rehabilitation of the Uley original process plant site and management of the Company's production inventory. There was \$1,074,400 charged by CCL during the year (2020: \$921,750) and there was \$667,760 payable as at 30 June 2021 (2020: \$412,835) in relation to these services.

SC Capital Pty Ltd (an entity related to Sal Catalano) provided consultancy services to the Company in connection with his position as an executive director of the Company. There was \$99,000 charged by SC Capital Pty Ltd during the year (2020: \$94,500) and there was \$Nil payable as at 30 June 2021 (2020: \$Nil) in relation to these services.

C. Service Agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Sal Catalano
 Title: Executive Director
 Term of agreement: No fixed term
 Details: Director fees of \$72,000 and Consulting agreement of \$90,000 for year ending 30 June 2022, to be reviewed annually by the Nomination and Remuneration Committee

Name: Bruno Ruggiero
 Title: Chairman and Independent Non-Executive Director
 Details: Director fees of \$72,000 for year ending 30 June 2022, to be reviewed annually by the Nomination and Remuneration Committee

Name: Robert Osmetti
 Title: Independent Non-Executive Director
 Details: Director fees of \$48,000 for year ending 30 June 2022, to be reviewed annually by the Nomination and Remuneration Committee

Name: David Trimboli
 Title: Independent Non-Executive Director
 Details: Director fees of \$48,000 for year ending 30 June 2022, to be reviewed annually by the Nomination and Remuneration Committee

Name: Rochelle Pattison
 Title: Company Secretary
 Details: Consulting fees of \$48,000 for year ending 30 June 2022, to be reviewed annually by the Nomination and Remuneration Committee.

Additional Information

The earnings of the consolidated entity for the five years to 30 June 2021 are summarised below:

	2021	2020	2019	2018	2017
	\$	\$	\$	\$	\$
Total revenue	292,746	543,386	6,500	-	-
EBITDA	(2,021,106)	(904,763)	(3,372,388)	(2,760,584)	(1,179,963)
EBIT	(2,068,370)	(960,529)	(3,421,144)	(2,841,270)	(1,295,060)
Profit / (loss) after income tax	(2,068,370)	(960,529)	(3,543,394)	(7,390,538)	(2,666,773)

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (CONTINUED)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2021	2020	2019	2018	2017
Share price at financial year end (\$)	-(*)	0.028	0.105	4.025	N/A
Total dividends declared (cents per share)	-	-	-	-	--
Basic earnings per share (cents per share)	(0.89)	(0.44)	(1.75)	(1.66)	(1.34)

*Shares were not traded at 30 June 2021

D. Share-based remuneration

Unlisted options

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the terms of the agreements.

There were no options over ordinary shares in the Company that were granted as remuneration to each KMP during the year ending 30 June 2021.

Performance Rights

There were no performance rights over ordinary shares in the Company granted as compensation during the reporting period.

Share holdings of key management personnel

The number of ordinary shares of Quantum Graphite Limited held, directly, indirectly or beneficially, by each KMP, including their personally related entities as at the reporting date are set out below:

2021					
KMP	Held at 1 July 2020	Issued in lieu of Director fees	Appointment or Resignation	Participation in equity raises	Held directly or indirectly at 30 June 2021
S Catalano	41,116,752	2,652,387	-	15,611,528	59,380,667
S Chadwick*	2,885,714	2,652,387	(5,538,101)*	-	-
R Osmetti	9,472,951	1,585,400	-	-	11,058,351
B Ruggiero	13,001,122	2,652,387	-	2,076,923	17,730,432
D Trimboli	13,392,541	1,585,400	-	-	14,977,941
Total	79,869,080	11,127,961	(5,538,101)	17,688,451	103,147,391

*Resigned 30 November 2020

Option holdings of key management personnel

There are 28,571,429 options over ordinary shares in Quantum Graphite Limited issued on 20 July 2018 and held by Chimaera Capital Limited in which Mr Catalano has an indirect shareholding during the financial year and at the reporting date.

END OF AUDITED REMUNERATION REPORT

Directors' Report (continued)

ENVIRONMENTAL LEGISLATION

The Directors believe that the Company has, in all material respects, complied with all particular and significant environmental regulations relevant to its operations.

The Company's operations are subject to various environmental regulations under the Commonwealth and State Laws of Australia. Approvals, licences, hearings and other regulatory requirements are performed, as required, by the Company's management for each permit or lease in which the Company has an interest.

INDEMNITIES GIVEN, AND INSURANCE PREMIUMS PAID TO AUDITORS AND OFFICERS

During the year, the Company did not pay a premium to insure officers of the Group.

The Group has not otherwise, during or since the end of the reporting period, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

NON-AUDIT SERVICES

During the year RSM Australia Partners did not perform services in addition to its statutory duties.

Details of the amounts paid to the auditors of the Company and its related practices for audit and non-audit services provided during the reporting period are set out in note 18 to the Financial Statements.

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 11 of this Financial Report and forms part of this Directors' Report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

CORPORATE GOVERNANCE

The Board has adopted the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations - Fourth Edition" (ASX Recommendations). The Board continually monitors and reviews its existing and required policies, charters and procedures with a view to ensuring its compliance with the ASX Recommendations to the extent deemed appropriate for the size of the Company and its development status.

A summary of the Company's ongoing corporate governance practices is set out annually in the Company's Corporate Governance Statement and can be found on the Company's website at:

<http://www.quantumgraphite.com/investors>

Signed in accordance with a resolution of the Directors.



Bruno Ruggiero

Chairman



Sal Catalano

Executive Director

28 September 2021

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

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F +61 (0) 3 9286 8199

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Quantum Graphite Limited and its controlled entities for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'J S Croall'.

RSM AUSTRALIA PARTNERS

A larger handwritten signature in blue ink, appearing to read 'J S Croall'.

J S CROALL
Partner

Dated: 28 September 2021
Melbourne, Victoria

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2021

	Notes	2021 \$	2020 \$
Other income	2	292,490	536,605
Corporate and asset management expenses	3	(2,361,116)	(1,472,435)
Commercialisation expenses	3	-	(24,980)
Total operating loss		(2,068,626)	(960,810)
Interest revenue		256	281
Net financing income / (expense)		256	281
Loss before tax		(2,068,370)	(960,529)
Income tax benefit / (expense)	4	-	-
Loss for the year attributable to owners of the Quantum Graphite Limited		(2,068,370)	(960,529)
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to owners of Quantum Graphite Limited		(2,068,370)	(960,529)
Loss per share from continuing operations			
Basic and diluted loss – cents per share	5	(0.89)	(0.44)

This statement should be read in conjunction with the notes to the consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	2021 \$	2020 \$
ASSETS			
Current assets			
Cash and cash equivalents	6	1,236,231	13,436
Receivables	7	261,082	142,977
Total current assets		<u>1,497,313</u>	<u>156,413</u>
Non-current assets			
Security deposit with the Department of State Development	8	1,073,863	1,073,863
Plant and equipment	9	336,336	383,601
Intangible assets		7,189	7,189
Development assets	10	14,245,139	13,748,705
Exploration and evaluation assets	11	1,991,005	1,754,371
Total non-current assets		<u>17,653,532</u>	<u>16,967,729</u>
TOTAL ASSETS		<u>19,150,845</u>	<u>17,124,142</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	1,060,853	1,170,213
Total current liabilities		<u>1,060,853</u>	<u>1,170,213</u>
Non-current liabilities			
Rehabilitation provisions	13	558,369	558,369
Total non-current liabilities		<u>558,369</u>	<u>558,369</u>
TOTAL LIABILITIES		<u>1,619,222</u>	<u>1,728,582</u>
NET ASSETS		<u>17,531,623</u>	<u>15,395,560</u>
EQUITY			
Issued capital	14	58,454,228	54,249,795
Reserves	15	2,520,000	2,520,000
Accumulated losses		(43,442,605)	(41,374,235)
TOTAL EQUITY		<u>17,531,623</u>	<u>15,395,560</u>

This statement should be read in conjunction with the notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

2021	Share capital	Share Options / Rights reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
Balance at 1 July 2020	54,249,795	2,520,000	(41,374,235)	15,395,560
Shares issued in lieu of directors fees	567,526	-	-	567,526
Issue of share capital, net of transaction costs	3,636,907	-	-	3,636,907
<i>Transactions with owners in their capacity as owners</i>	4,204,433	-	-	4,204,433
Comprehensive income:				
Loss after income tax for the year	-	-	(2,068,370)	(2,068,370)
Other comprehensive income for the year, net of tax	-	-	-	-
<i>Total comprehensive income / (loss) for the year</i>	-	-	(2,068,370)	(2,068,370)
Balance at 30 June 2021	58,454,228	2,520,000	(43,442,605)	17,531,623

2020	Share capital	Share Options / Rights reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
Balance at 1 July 2019	54,249,705	2,520,000	(40,413,706)	16,356,089
Comprehensive income:				
Loss after income tax for the year	-	-	(960,529)	(960,529)
Other comprehensive income for the year, net of tax	-	-	-	-
<i>Total comprehensive income / (loss) for the year</i>	-	-	(960,529)	(960,529)
Balance at 30 June 2020	54,249,795	2,520,000	(41,374,235)	15,395,560

This statement should be read in conjunction with the notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Notes	2021 \$	2020 \$
Cash flows from operating activities			
Payments to suppliers and employees		(1,259,489)	(563,846)
Interest received		256	370
R&D tax incentive received		110,219	276,386
Net cash used in operating activities	16	<u>(1,149,014)</u>	<u>(287,090)</u>
Cash flows from investing activities			
Payments for exploration and evaluation assets		(16,290)	(183,326)
Payments for development assets		(36,807)	(81,648)
Proceeds from sale of development assets		-	165,000
Net cash used in investing activities		<u>(53,097)</u>	<u>(99,974)</u>
Cash flows from financing activities			
Proceeds from issue of share capital		2,424,906	-
Net cash from financing activities		<u>2,424,906</u>	<u>-</u>
Net increase / (decrease) in cash and cash equivalents		<u>1,222,795</u>	<u>(387,064)</u>
Cash and cash equivalents at the beginning of the financial year		13,436	400,500
Cash and cash equivalents at the end of the financial year	6	<u>1,236,231</u>	<u>13,436</u>

This statement should be read in conjunction with the notes to the consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2021

General Information

a) Nature of operations

Quantum Graphite Ltd's principal activity is the manufacture of high-grade flake graphite products and the mining of and exploration for graphite deposits in South Australia.

b) Basis of preparation

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Quantum Graphite Ltd is a listed company, registered and domiciled in Australia. Quantum Graphite Limited is a for-profit entity for the purpose of preparing the financial statements.

The consolidated financial statements for the reporting period ended 30 June 2021 were approved and authorised by the Board of Directors on 28 September 2021.

The financial statements have been prepared under the historical cost convention.

c) Going concern basis of accounting

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the consolidated entity incurred a loss after tax from continuing operations of \$2,068,370 and net cash outflows from operating activities of \$1,149,014 for the year ended 30 June 2021.

These factors indicate a material uncertainty which may cast significant doubt as to whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The consolidated entity is reliant upon completion of capital raising for continued operations and the provision of working capital. The directors believe they will be successful in attracting additional capital from existing and new shareholders in the range of \$0.75 Million to \$1.00 Million and have hence prepared the financial statements on a going concern basis.

The consolidated entity has also obtained a letter of support from Chimaera Capital Limited, a related party, agreeing to defer collection of the amount outstanding of \$667,760 as at 30 June 2021 in respect of the Technical and Administration Services Arrangement to the earlier of the consolidated entity's next capital raise or 1 July 2022.

If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the consolidated entity may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

Notes to the consolidated financial statements (Continued)

1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Quantum Graphite Ltd (“company” or “the parent entity”) as at 30 June 2021 and the results of all subsidiaries for the year then ended. Quantum Graphite Ltd and its subsidiaries are together referred to in these financial statements as “the Group” or “the consolidated entity”.

Subsidiaries

The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 30 June 2021. Subsidiaries are all entities (including structured entities) over which the Group has

- (i) the power to direct the relevant activities;
- (ii) exposure to significant variable returns; and
- (iii) the ability to utilise power to affect the Group’s own returns.

Subsidiaries are fully consolidated from the date on which control is fully transferred to the Group. They are deconsolidated from the date that control ceases. All subsidiaries have a reporting date of 30 June.

A list of controlled entities is contained in Note 17 to the Financial Statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted, where necessary, to ensure consistency with the accounting policies adopted by the Group.

Joint ventures

Joint ventures are accounted for under the equity method. Joint ventures are entities in which the Company exercises joint control by virtue of a contractual agreement.

Under the equity method, on initial recognition the investment in an associate or joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit and loss of the investee after the date of acquisition.

b) Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 23. The financial information of the parent entity has been prepared on the same basis as the consolidated financial statements, other than investments in controlled entities which are carried at cost less impairment.

c) Impact of COVID-19 pandemic and the Group’s response

Notwithstanding the impact of COVID-19, European market prices for the Company’s products firmed significantly during the reporting period with prices continued to average significantly more than the Company’s projected basket price of US\$919. The Company’s DFS underpins its key strengths including low operating costs, lean overhead structure and ungeared capital structure.

Notes to the consolidated financial statements (Continued)

c) Impact of COVID-19 pandemic and the Group's response (continued)

The consolidated entity has prepared an assessment of its ability to continue as a going concern, taking into account all available information for a period of twelve months from the date of issuing the financial statements including the effects of the COVID-19 pandemic which has had a material impact on the Company progressing the development of Uley 2.

d) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria, as prescribed by AASB 8 *Operating Segments*, are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

The Directors have considered the requirements of AASB 8 *Operating Segments* and the internal reports that are reviewed by the Board in allocating resources have concluded that at this time there are no separately identifiable segments.

d) Finance income and expense

Finance income comprises interest income on funds invested, gains on disposal of financial assets and changes in fair value of financial assets held at fair value through profit or loss.

Interest income is recognised as it accrues in the profit or loss, using the effective interest rate method.

e) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the items. Repairs and maintenance are charged to the profit or loss during the reporting period in which they were incurred.

Plant and equipment under construction is accumulated until it is installed and ready for use at which time the costs are transferred to plant and equipment and depreciated.

Depreciation is calculated using the diminishing value method to allocate asset costs over their estimated useful lives, as follows:

Plant and equipment	3-20 years
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The assets residual values and useful lives are reviewed and adjusted at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

Notes to the consolidated financial statements (Continued)

f) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that right of tenure is current, and those costs are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing.

Accumulated costs, in relation to an abandoned area, are written off in full against profit in the period in which the decision to abandon the area is made.

g) Development expenditure

Development expenditure represents the accumulation of all acquired exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest being prepared for mining or in which economic processing of a mineral reserve has commenced. Amortisation of costs is provided on the unit of production method, with separate calculations being made for each mineral resource. The unit of production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves. The net carrying value is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against in the financial year in which this is determined.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

The Group records the present value of the estimated cost of legal and constructive obligations (such as those under the consolidated entity's Environmental Policy) to restore operating locations in the period in which the obligation is incurred. Site restoration costs include the dismantling and removal of plant and equipment, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs and current legal requirements and technology.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

h) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the provisions to the instrument. For financial assets, this is equivalent to date that the Group commits itself to either the purchase or sale of the asset.

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified as 'fair value through profit and loss', in which case the costs are expensed to the profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value or amortised cost using the effective interest method. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, quoted prices in an active market are used to determine fair value.

Notes to the consolidated financial statements (Continued)

h) Financial instruments (continued)

The Group does not designate any interest in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments:

(i) Financial assets at fair value through profit or loss (equity investments)

Financial assets at fair value through profit or loss include financial assets held for trading, e.g., financial assets designated upon initial recognition at fair value through profit or loss, e.g., debt or equity instruments, or financial assets mandatorily required to be measured at fair value, i.e., where they fail the SPPI test. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that do not pass the SPPI test are required to be classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

(ii) Financial liabilities

Non-derivative financial liabilities are subsequently measured at amortised cost.

Impairment

The group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

i) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Where it is not probable to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the consolidated financial statements (Continued)

j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, less allowances for expected credit losses.

k) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Due to their short-term nature they are measured at amortised cost and are not discounted.

l) Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered, or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries or associates and the timing of the reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

To the extent that research and development costs are eligible under the "Research and development tax incentive" programme, a 43.5% refundable tax offset is available for companies with annual turnover of less than \$20 million. The Group recognises refundable tax offsets received in the financial year as Other income, in profit or loss.

Tax consolidation

Quantum Graphite Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and the subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

Notes to the consolidated financial statements (Continued)

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

l) Income Tax (continued)

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

m) Leases

When a contract is entered into, the Group assesses whether the contract contains a lease. A lease arises when the Group has the right to direct the use of an identified asset where the lessor does not have a substantive substitution right and to obtain substantially all economic benefits from the use of the asset throughout the period of use.

The Group separates the lease and non-lease components of the contract and accounts for these separately. The Group allocates the consideration in the contract of each component on the basis of their relative stand-alone prices.

Leases as a lessee

Right-of-use (ROU) assets and lease liabilities are recognised at the lease commencement date, which is when the assets are available for use. The assets are initially measured at cost, which is the present value of future lease payments for any lease payments made at or before the commencement date, plus any make-good obligations and initial direct costs incurred.

ROU assets are depreciated using the straight-line method over the shorter of their useful life and the lease term. Periodic adjustments are made for any re-measurements of lease liabilities and for impairment losses, assessed in accordance with the Group's impairment policies disclosed at note 1.

Lease liabilities are initially measured at the present value of future minimum lease payments, discounted using the Group's incremental borrowing rate if the rate implicit in the lease cannot be readily determined, and are subsequently measured at amortised cost using an effective interest rate. Minimum lease payments are fixed payments or index-based variable payments incorporating the Group's expectations of extension options and do not include non-lease components of a contract. A portfolio approach was taken when determining the implicit discount rate for leased assets with similar terms and conditions on transition.

The lease liability is remeasured when there are changes in future lease payments arising from a change in rates, index or lease terms from exercising an extension or termination option. A corresponding adjustment is made to the carrying amount of the lease assets, with any excess recognised in the consolidated statement of profit or loss and other comprehensive income.

Short-term leases and leases of low value assets

Short-term leases (i.e. lease term of 12 months or less) and leases of low value assets are recognised as incurred as an expense to the consolidated statement of profit or loss and other comprehensive income. Low value assets comprise of plant and equipment.

Notes to the consolidated financial statements (Continued)

Leases as a lessor

As a lessor the Group classifies its leases as either operating or finance leases. The accounting policies applicable to the Group as a lessor are not different from those under AASB 117 *Leases*. However, when the Group is an intermediate lessor, the sub-leases are classified with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. Operating lease income is recognised in other revenue in the consolidated statement of profit or loss and other comprehensive income.

n) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

o) Earnings per share

- *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

- *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-tax effect and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

p) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

q) Share-based payments

The Company operates equity-settled based remuneration plans for its directors. None of the Company plans features any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employee' services are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is appraised at the grant dates and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimated are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. Non-adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

Notes to the consolidated financial statements (Continued)

r) Employee benefits

The Group provides post-employment benefits through various defined contribution plans.

A defined contribution plan is a superannuation plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The Group contributes to several plans and insurances for individual employees that are considered defined contribution plans. Contributions to the plans are recognised as an expense in the period that relevant employee services are received.

Employee benefits, including annual leave entitlement, are included in 'employee provisions', measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

s) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

t) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends of economic data, obtained both externally and within the Group.

Key estimates

Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Decommissioning provision

Estimates and assumptions of the appropriate discount rate at which to discount the liability, the timing of cash flows, the application of relevant environmental legislation and the future expected costs of decommissioning are all used in determining the carrying value of the decommissioning provision. The carrying amount of the provision is set out in Note 13.

R&D Tax Concession

To the extent that research and development costs are eligible under the 'Research and development tax incentive' programme, a 43.5% refundable offset is available for companies with annual turnover of less than \$20million. Research and development tax incentive income is recognised at fair value when there is a reasonable expectation that the income will be received. The expected future R&D tax incentive for qualifying R&D expenditure has been accrued and is also recognised as other income in the statement of profit or loss. The Company has estimated the amount of future R&D incentive receivable on ongoing projects on the basis that the expected amount of the incentive can be reliably measured and receipted.

Notes to the consolidated financial statements (Continued)

Key judgements

Development expenditure and plant and equipment

The future recoverability of fixed assets and capitalised development expenditure has been assessed by the directors and is dependent on a number of factors, including commodity prices, the level of reserves and resources, foreign currency rates and future technological changes that could impact the costs of mining and processing and future legal changes.

Significant judgements and assumptions are required in making assessments regarding the presence of impairment indicators. This is particularly so in the assessment of long-life assets.

After assessing external and internal sources for the presence of impairment indicators for the Uley Graphite project, no impairment triggers were identified and therefore impairment testing was not required at the reporting date.

Exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with management and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Board of Directors with reference to quoted market prices or using the Black-Scholes valuation method or the Monte Carlo valuation method as appropriate taking into account the terms and conditions upon which the equity instruments were granted. The assumptions in relation to the valuation of the equity instruments are detailed in Note 21. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

u) Accounting standards issued but not yet effective and not adopted early by the Group

AASB 2020-1 Classifications of Liabilities as Current or Non-Current

This standard is applicable to annual reporting periods beginning on or after 1 January 2022. AASB 2020-1 amends AASB 101 *Presentation of Financial Statements* to clarify for the presentation of liabilities in the statement of financial position as current or non-current.

Notes to the consolidated financial statements (Continued)

For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

The Group does not expect the any impact on adoption of this standard but shall consider the appropriate classification of liabilities as current or non-current.

Notes to the consolidated financial statements (Continued)

2. OTHER INCOME

	2021 \$	2020 \$
Other Income ¹	212,474	-
R&D tax incentive ²	80,016	386,605
Gain on sale of development assets	-	150,000
Other income	<u>292,490</u>	<u>536,605</u>

¹Other income represents the gain on issue of shares in respect of directors' remuneration for the period 1 September 2018 to 31 December 2020.

²R&D tax incentive income consists of \$80,016 that relates to costs included in the 2021-22 R&D tax incentive claim.

3. EXPENSES

2021	Corporate \$	Commercialisation \$	Total \$
Director's salary expense	276,000	-	276,000
Depreciation	47,265	-	47,265
Research & Development	192,600	-	192,600
Rental Expense	224,400	-	224,400
Data & Communications Equipment	183,600	-	183,600
Sundry Service Fees	204,000	-	204,000
Corporate Administration Costs	71,400	-	71,400
Professional fees*	968,144	-	968,144
Other	193,707	-	193,707
Total	<u>2,361,116</u>	<u>-</u>	<u>2,361,116</u>

*Represents transaction and advisory fees towards facilitation of proposed debt funding arrangements.

2020	Corporate \$	Commercialisation \$	Total \$
Director's salary expense	360,000	-	360,000
Depreciation	55,765	-	55,765
Research & Development	287,220	-	287,220
Rental Expense	202,785	-	202,785
Data & Communications Equipment	165,915	-	165,915
Sundry Service Fees	184,350	-	184,350
Corporate Administration Costs	64,523	-	64,523
Other	151,877	24,980	176,857
Total	<u>1,472,435</u>	<u>24,980</u>	<u>1,497,415</u>

Commercialisation expenses include sales and marketing and other expenses directed towards the development of value-added products and associated markets. Pre-commissioning expenses (\$Nil for both years) include costs of establishing operational readiness at Uley and pre-production testing of the plant.

Notes to the consolidated financial statements (Continued)

4. INCOME TAX EXPENSE

	2021 \$	2020 \$
(a) The components of income tax expense comprise:		
Current income tax (expense) / benefit	-	-
(b) The prima facie tax loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Net loss	(2,068,370)	(960,529)
Prima facie tax benefit on loss from ordinary activities before income tax at 26% (2020: 27.5%)	(537,776)	(264,145)
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	898	1,877
Deferred tax asset not realised as recognition criteria not met	536,878	262,268
Income tax (expense) / benefit	-	-
	2021 \$	2020 \$

(c) Deferred tax assets have not been recognised in respect of the following:

Tax losses	35,746,505	33,832,307
Deferred tax asset has not been recognised	9,294,091	8,796,400
Capital losses	3,107,027	3,107,027

Future utilisation of the tax losses will be subject to the satisfaction of continuity of ownership or continuity of business test. The assessment regarding the utilisation has not yet been completed and tax losses are not recognised as deferred tax assets.

5. EARNINGS PER SHARE

	2021	2020
Loss after income tax attributable to the owners of Quantum Graphite Limited (\$)	(2,068,370)	(960,529)
Weighted average number of shares used in basic earnings per share	233,447,618	218,874,240
Loss per share (cents)	(0.89)	(0.44)

In accordance with AASB 133 'Earnings per Share', Options issued and outstanding at the end of the reporting period have not been included in the calculation of diluted earnings per share as their inclusion would be anti-dilutive in nature due to the losses incurred during the current and previous reporting periods.

Notes to the consolidated financial statements (Continued)

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	2021 \$	2020 \$
Cash at hand and in bank.		
Cash at bank ¹	1,236,231	13,436
Cash and cash equivalents	1,236,231	13,436

Reconciliation of cash at the end of the year.

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash and cash equivalents	1,236,231	13,436
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¹ Includes an amount of \$1,227,628 (2020: \$4,029) which are held in custody with Chimaera Capital Limited, a related party.

7. RECEIVABLES

	2021 \$	2020 \$
Other receivables	20,000	20,000
GST receivable	161,066	12,758
R&D Tax Incentive receivable	80,016	110,219
Total receivables	261,082	142,977

8. SECURITY DEPOSIT WITH THE DEPARTMENT ENERGY AND MINING ("DEM")

	2021 \$	2020 \$
Opening balance	1,073,863	1,073,863
Closing balance	1,073,863	1,073,863

The security deposit represents funds deposited with the DEM as security for remediation and rehabilitation in respect of the Company's Uley mining project. Details of the provision for remediation and rehabilitation is contained in note 13.

Notes to the consolidated financial statements (Continued)

9. PLANT AND EQUIPMENT

2021	Plant & Equipment \$	Motor vehicles \$	Total \$
Gross carrying amount			
Opening balance	797,454	39,566	837,020
Balance 30 June 2021	797,454	39,566	837,020
Depreciation and impairment			
Opening balance	(413,853)	(39,566)	(453,419)
Depreciation	(47,265)	-	(47,265)
Balance 30 June 2021	(461,118)	(39,566)	(500,864)
Carrying amount 30 June 2021	336,336	-	336,336
2020	Plant & Equipment \$	Motor vehicles \$	Total \$
Gross carrying amount			
Opening balance	797,454	39,566	837,020
Balance 30 June 2020	797,454	39,566	837,020
Depreciation and impairment			
Opening balance	(358,088)	(39,566)	(397,654)
Depreciation	(55,765)	-	(55,765)
Balance 30 June 2020	(413,853)	(39,566)	(453,419)
Carrying amount 30 June 2020	383,601	-	383,601

The carrying amount does not exceed the director's assessment of the recoverable value of the plant and equipment.

Notes to the consolidated financial statements (Continued)

10. DEVELOPMENT ASSETS

	2021 \$	2020 \$
Gross carrying amount		
Opening balance	13,748,705	13,624,681
Additions during the year	496,434	124,024
Closing balance	14,245,139	13,748,705

The closing balance represents the capitalised portion of Uley 2 project expenditure. The directors have assessed that the carrying amount of the Uley 2 project (including all plant and equipment, environmental infrastructure e.g. Tailings Storage Facilities, mining titles, JORC 2012 Reserves and Resources and all project approvals under the South Australian Mining Act 1971) does not exceed the recoverable amount. The carrying value of development assets has been tested for impairment as part of a single cash-generating unit (CGU) represented by the Uley 2 Project. Details of impairment testing are set out in Note 11.

11. EXPLORATION AND EVALUATION ASSETS

	2021 \$	2020 \$
Opening balance	1,754,371	1,538,421
Expenditure on exploration during the year	236,634	215,950
Closing balance	1,991,005	1,754,371

Impairment testing

The Group has determined that it has a single cash-generating unit (CGU) represented by the Uley 2 Project. Accordingly, the associated plant and equipment, development, exploration and evaluation assets ("the Uley 2 Assets") have been allocated to the CGU.

The consolidated entity expects to secure debt of US\$70M at an interest rate ranging from 6% to 8%, and continue the exploration activities, commence production and achieve sales of its products. The recoverable amount of the consolidated entity's Uley 2 Assets has been determined by a value-in-use calculation using a discounted cash flow model, based on the project period and production profile established under the Definitive Feasibility Study and approved by management, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive. The following key assumptions were used in the discounted cash flow model:

- (a) 12.5% post-tax discount rate;
- (b) Plant utilisation and resource availability over the forecast period is from the Definitive Feasibility Study (DFS) report;
- (c) Projected revenue growth rate based on Uley 2 production assuming no growth in basket prices per tonne of production (estimated at USD 900 - 920 per tonne); and

Subject to the comments in Sensitivity Analysis:

- (a) The discount rate of 12.5% post-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the risk-free rate and the volatility of the share price relative to market movements; and
- (b) Management's adoption of the projected revenue on the basis of no increase in basket prices is considered prudent and justified.

Notes to the consolidated financial statements (Continued)

11. EXPLORATION AND EVALUATION ASSETS (continued)

Sensitivity Analysis

As disclosed in note 1, the directors have made judgements and estimates in respect of the impairment testing. Should these judgements and estimates not occur the resulting carrying amount of the assets may decrease. The sensitivities are as follows:

- (a) Revenue over the projection period would need to decrease by more than 27% before the assets would need to be impaired, with all other assumptions remaining constant.
- (b) The post-tax discount rate should be 30% or more for the assets to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of the assets is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

If there are any negative changes in the key assumptions on which the recoverable amount of the assets is based, this would result in a further impairment charge for the assets.

12. TRADE AND OTHER PAYABLES

Trade and other payables, which are all current, recognised in the statement of financial position can be analysed as follows:

	2021 \$	2020 \$
Trade and other payables ¹	1,060,853	1,170,213
Total	1,060,853	1,170,213

¹Trade and other payables includes:

- A total of \$667,760 (2020: \$412,835) payable to Chimaera Capital Limited, of which Chimera Capital Limited has agreed to defer the current amount outstanding in respect of the Technical and Administration Services Arrangement to the earlier of QGL's next capital raise or 1 July 2022.

- Directors' fees of \$120,000 (2020: \$624,000) whereby Directors control the timing of payment of Directors' fees, and the Directors intend to continue to take settlement in shares subject to approval at the AGM.

13. REHABILITATION PROVISION

	2021 \$	2020 \$
Decommissioning provision	558,369	558,369
	558,369	558,369

The provision represents the present value of the estimated future decommissioning costs (in the amount of \$1,073,863 – see note 8) of the Uley mine site which at the reporting date was restricted to removal of the Phase I processing plant including associated infrastructure and rehabilitation of a portion of the Uley Pit and water treatment areas. The estimated provision brought to account is reflective of the stage of development of the Uley project. The management has assessed that the effect of unwinding of discount on the provision is not material.

Notes to the consolidated financial statements (Continued)

14. ISSUED CAPITAL

	Number of shares	2021 \$
(a) Issued and paid-up capital		
Fully paid ordinary shares	281,834,890	58,454,228
	<hr/> 281,834,890	<hr/> 58,454,228
(b) Movement in fully paid ordinary shares		
Opening balance	218,874,240	54,249,795
Shares issued on 7 December 2020 – in lieu of directors fee	11,127,961	567,526
Issue of share capital towards professional fees	9,850,000	640,000
Issue of share capital towards development and exploration expenditure (professional and consultancy fees)	6,492,308	572,001
Issue of share capital for cash	35,490,381	2,424,906
	<hr/> 281,834,890	<hr/> 58,454,228
Balance as at 30 June 2021	<hr/> 281,834,890	<hr/> 58,454,228
	<hr/> Number of shares	<hr/> 2020 \$
(a) Issued and paid up capital		
Fully paid ordinary shares	218,874,240	54,249,795
	<hr/> 218,874,240	<hr/> 54,249,795
(b) Movement in fully paid ordinary shares		
Opening balance	7,660,580,941	54,249,795
Security consolidation – 1 for 35 shares on issue	(7,441,706,701)	-
	<hr/> 218,874,240	<hr/> 54,249,795
Balance as at 30 June 2020	<hr/> 218,874,240	<hr/> 54,249,795

The share capital of Quantum Graphite Limited consists only of fully paid ordinary shares. All shares are eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Company. The shares do not have a par value and the Company does not have a limited amount of authorised capital. In the event of winding up the Group, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Notes to the consolidated financial statements (Continued)

14. ISSUED CAPITAL (continued)

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

15. RESERVES

Balance of share-based payments reserve

	2021 \$	2020 \$
Opening balance	2,520,000	2,520,000
Balance at 30 June 2021	2,520,000	2,520,000

Share based payments are in line with the Quantum Graphite Ltd's remuneration policy, details which are outlined in the director's report. Listed below are summaries of options and performance rights granted:

Shares options were issued at fair value of \$2,520,000 with an expiry date of 23/7/2023 and an exercise price of NIL

Share Option Reserve 2021	Number of options	2021 \$
Opening balance	28,571,429	2,520,000
Balance at 30 June 2021	28,571,429	2,520,000
Share Option Reserve 2020	Number of options	2020 \$
Opening balance	1,000,000,000	2,520,000
Security consolidation (1 for 35 options)	(971,428,571)	-
Balance at 30 June 2020	28,571,429	2,520,000

Nature and purpose of reserves

The share-based payments reserve is used to recognise the fair value of all equity issued pursuant to share based payments.

Notes to the consolidated financial statements (Continued)

16. RECONCILIATION OF LOSS AFTER INCOME TAXES TO CASHFLOWS FROM OPERATING ACTIVITIES

Operating activities

	2021 \$	2020 \$
Loss after income tax expense for the year	(2,068,370)	(960,529)
Adjustments for:	-	-
Depreciation expense	47,265	55,765
Issue of equity shares towards payment of directors' fees	567,526	-
Issue of equity shares towards payment of professional fees	640,000	-
Gain on sale of development assets	-	(150,000)
Change in operating assets and liabilities:		
Decrease/(increase) in other assets	-	23,258
Decrease/(increase) in receivables	(118,105)	178,976
Increase/(decrease) in payables	(217,330)	565,440
Net cash used in operating activities	(1,149,014)	(287,090)

17. INVESTMENTS IN CONTROLLED ENTITIES

The Company has the following subsidiaries:

Name of Subsidiary	Country of Registration	Class of Shares	Percentage held	
			2021	2020
Quantum Graphite Operations Pty Ltd	Australia	Ordinary	100%	100%

18. AUDITOR REMUNERATION

	2021 \$	2020 \$
Audit services		
Auditors of Quantum Graphite Ltd – RSM Australia Partners		
- Audit and review of Financial Reports	55,000	-
Auditors of Quantum Graphite Ltd – Grant Thornton		
- Audit and review of Financial Reports	-	49,300
Audit services remuneration	55,000	49,300

Notes to the consolidated financial statements (Continued)

19. COMMITMENTS AND CONTINGENCIES

Exploration commitments

An application was lodged for the extension of the renewal of EL6224 to 12 October 2021. The Company has met all expenditure commitments in respect to EL6224.

Contingent liabilities

The Group has no contingent assets or liabilities as at 30 June 2021 (30 June 2020: \$nil)

20. RELATED PARTY TRANSACTIONS

The Group's related party transactions include its subsidiaries, key management personnel and shareholders.

(a) Parent entity

Quantum Graphite Limited is the parent entity

(b) Transactions with subsidiary

Loans between entities in the wholly owned Group are not interest bearing, unsecured and are payable upon reasonable notice having regard to the financial stability of the Company.

(c) Transactions with key management personnel

Key Management Personnel remuneration includes the following which are disclosed in detail in the remuneration report:

	2021 \$	2020 \$
Short-term benefits	276,000	360,000
Total remuneration	276,000	360,000

The Outstanding balances with key management personnel included in Trade and Other Payables at 30 June 2021 amounts to \$120,000 (2020: \$624,000).

Notes to the consolidated financial statements (Continued)

20. RELATED PARTY TRANSACTIONS (continued)

(d) Transactions with other related parties

	2021	2020
	\$	\$
Transactions during the period		
<i>Chimaera Capital Limited (substantial shareholder in the Group)</i>		
- Expenses towards occupancy costs, IT services, accounting services, asset management services and other corporate administration charges. Asset management services include care and maintenance of the Uley mine site, maintenance of the tailings storage facility, the works associated with the rehabilitation of the Uley original process plant site and management of the Company's production inventory.	1,074,400	921,750
<i>SC Capital Pty Ltd (director-related entity)</i>		
- Consultancy services received in connection with Sal Catalano's position as executive director of the Company	99,000	94,500

(e) The Sunland Co. Pty Ltd Collaboration

Sunland Co. Pty Ltd is a director-related entity.

During the reporting period, the Group announced the extension of the Memorandum of Understanding (MOU) with The Sunlands Co. Pty Ltd (Sunlands Co.). The provisions of the MOU govern the technical and commercial collaboration between the parties in connection with Sunlands Co.'s thermal energy storage (TES) technology. Current activities are principally directed at supporting Sunlands Co.'s development of a commercial pilot facility.

On 23 June 2021 the Company announced that it would enter into a joint venture with Sunlands Co. to manufacture the graphite based thermal storage media for the TES battery cells. Each party shall hold a 50% interest in the joint venture. As at 30 June 2021, there was no investment made into the joint venture.

(f) Receivables from and payables to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	30 June 2021	30 June 2020
	\$	\$
Current payables:		
Trade payables to Chimaera Capital Limited	667,760	412,835
	<u>667,760</u>	<u>412,835</u>

(g) Funds held in custody with Chimaera Custody Services

Group's cash and cash equivalents held in trust with Chimaera Custody Services, a division of Chimaera Capital Limited.	<u>1,227,628</u>	<u>4,029</u>
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Notes to the consolidated financial statements (Continued)

21. EMPLOYEE REMUNERATION

(a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:	2021	2020
	\$	\$
Salaries / contract payments for Directors	276,000	360,000
	<u>276,000</u>	<u>360,000</u>

(b) Post-employment benefits expense

Expenses recognised for post-employment employee benefits are analysed below:	2021	2020
	\$	\$
Superannuation payments for Directors and employees	-	-

(c) Share-based employee remuneration

As at 30 June 2021, the Group maintained a performance rights and option plan for employee and director remuneration. There were no unlisted options granted to Directors as remuneration during the financial year.

Share options and weighted average exercise prices are as follows:

2021	Number of options	Weighted average exercise price (\$)
Opening balance	28,571,429	0.00
Outstanding and exercisable as at 30 June 2021	<u>28,571,429</u>	<u>0.00</u>
2020	Number of options	Weighted average exercise price (\$)
Opening balance	1,000,000,000	0.00
Security consolidation (1 for 35 options)	(971,428,571)	-
Outstanding and exercisable as at 30 June 2020	<u>28,571,429</u>	<u>0.00</u>

The weighted average share price* during the financial year was \$0.04527 (2020: \$0)

*calculated for the period during which the company's shares were traded.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.05 years (2020: 3.05 years).

Fair value of options granted

The fair value at grant date of the Director options has been determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Notes to the consolidated financial statements (Continued)

22. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, trade receivables and trade payables.

The total for each category of financial instruments are as follows:

	Note	2021 \$	2020 \$
Financial assets			
Cash and cash equivalents	6	1,236,231	13,436
Receivables	7	261,082	142,977
		1,497,313	156,413
Financial liabilities			
Trade and other payables	12	1,060,853	1,170,213
		1,060,853	1,170,213

Financial risk management policy

The consolidated entity's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Risk management is carried out by the Executive Director under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate and credit risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and ageing analysis for credit risk.

a) *Liquidity risk*

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate working capital is maintained for the coming months. Upcoming capital needs and the timing of equity and debt raisings are assessed by the Board.

Financial liabilities are expected to be settled within 12 months.

b) *Interest rate risk*

The Group's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. Cash is the only asset affected by interest rate risk as cash is the Group's only financial asset exposed to fluctuating interest rates.

The Group is exposed to interest rate risk on cash balances and term deposits held in interest bearing accounts. The Board constantly monitors its interest rate exposure and attempts to maximise interest income by using a mixture of fixed and variable interest rates, whilst ensuring sufficient funds are available for the Group's operating activities. The Group's net exposure to interest rate risk at 30 June 2021 approximates the value of cash and cash equivalents.

Notes to the consolidated financial statements (Continued)

22. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

c) *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is \$1,497,313 (2020: \$156,413) as disclosed in Notes 6 and 7 to the financial statements. The consolidated entity does not hold any collateral.

d) *Sensitivity analysis*

Interest rate

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

2021	Sensitivity*	Effect on:	
		Profit \$	Equity \$
Interest rate	+ 1.50%	+19,000	+19,000
	- 1.50%	-19,000	-19,000
2020	Sensitivity*	Effect on:	
		Profit \$	Equity \$
Interest rate	+ 1.50%	+0	+0
	- 1.50%	-0	-0

*The method used to arrive at the possible change of 150 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, interest rate movements ranged between 0 to 150 basis points. It is considered that 150 basis points a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the past five years.

The fair values of all financial assets and liabilities of the Group approximate their carrying values.

e) *Net fair values of financial assets and financial liabilities*

AASB 13 *Fair Value Measurement*: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The carrying amounts of all financial assets and liabilities approximate their net fair values due to their short-term nature..

Notes to the consolidated financial statements (Continued)

23. PARENT ENTITY INFORMATION

Information relating to Quantum Graphite Limited (the parent entity) is set out below:

	2021 \$	2020 \$
Statement of financial position		
Total current assets	1,236,231	13,436
Total assets	18,935,617	16,515,564
Total current liabilities	771,706	654,000
Total liabilities	771,706	654,000
Issued capital	58,454,228	54,249,795
Accumulated losses	(42,810,317)	(40,908,231)
Share option reserve	2,520,000	2,520,000
Total Equity	18,163,911	15,861,564
Statement of profit of loss and other comprehensive income		
Loss after income taxes	(1,902,086)	(548,279)
Total comprehensive income / (loss)	(1,902,086)	(548,279)

The parent entity has not entered into a deed of cross guarantee with the subsidiary.

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020. The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

24. OPERATING SEGMENTS

The Directors have considered the requirements of AASB 8 *Operating Segments* and the internal reports that are reviewed by the Chief Operating Decision Maker (the Board) in allocating resources have concluded that at this time there are no separately identifiable segments. The segment details are therefore fully reflected in the body of the financial statements.

Notes to the consolidated financial statements (Continued)

25. NON-CASH INVESTING AND FINANCING ACTIVITIES

	2021 \$	2020 \$
Shares issued as compensation towards development and exploration expenditure (professional and consultancy fees)	572,001	-
	<hr/> 572,001	<hr/> -
	<hr/>	<hr/>

26. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

There were no events that have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' Declaration

In the opinion of the Directors of Quantum Graphite Limited:

- (a) the consolidated financial statements and notes of Quantum Graphite Limited are in accordance with the *Corporations Act 2001*, including:
- i. giving a true and fair view of its financial position as at 30 June 2021 and of its performance for the financial year ended on that date;
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - iii. complying with the International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements; and
- (b) there are reasonable grounds to believe that Quantum Graphite Limited will be able to pay its debts when they become due and payable.

The directors have been given the declaration required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2021.

Signed in accordance with a resolution of the Directors:



Bruno Ruggiero
Director



Sal Catalano
Director

Melbourne
28 September 2021

INDEPENDENT AUDITOR'S REPORT**To the Members of Quantum Graphite Limited****Opinion**

We have audited the financial report of Quantum Graphite Limited ("the Company") and its subsidiaries (together referred to as "the Group") which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss after tax of \$2,068,370 and incurred cash outflows from operating activities of \$1,149,014 during the year ended 30 June 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed this matter
<p><i>Impairment assessment of assets relating to Uley Project</i> Refer to Note 11 in the financial statements</p>	
<p>The Group's non-current assets include development assets and plant and equipment relating to Uley Project ("the Project") with carrying amounts of \$14,245,139 and \$336,336 respectively, as at 30 June 2021.</p> <p>As required by AASB 136 <i>Impairment of Assets</i>, management has performed an impairment assessment as at 30 June 2021 by:</p> <ul style="list-style-type: none"> calculating the recoverable amount of the cash generating unit ("CGU") being the Project, which was determined to be the value-in-use of the Project, using a discounted cash flow model; and comparing the resulting value-in-use of the Project to the carrying amounts. <p>We determined this to be a key audit matter due to the significance of these assets in the consolidated statement of financial position (76% of the total assets of the Group).</p> <p>In addition, the directors' assessment of the recoverable amount of these assets involves significant management judgement about the future underlying cash flows relating to the Project and the discount rates applied to them.</p> <p>We note that the impact of the COVID-19 pandemic on the current market conditions has increased the level of judgement by the directors in estimating future cash flows.</p>	<p>Our audit procedures in relation to determination of recoverable amount of the Project included:</p> <ul style="list-style-type: none"> Assessing the directors' methodology for determining the recoverable value of the Project; Assessing the value-in-use calculations; Challenging the reasonableness of key assumptions, including the cash flow projections, plant utilisation and resource availability, future revenue growth rates, discount rates and terminal values; Checking the mathematical accuracy of the value-in-use model and reconciling input data to supporting evidence; Reviewing management's sensitivity analysis over the key assumptions in the model and assessing whether the assumptions have been applied on a consistent basis across each scenario; and Assessing the disclosures in Note 11 to the financial statements to assess compliance with the disclosure requirements of AASB136 <i>Impairment of assets</i>.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021; but does not include the financial report and the auditor's report thereon.

Other Information (continued)

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance; but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Quantum Graphite Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Report on the Remuneration Report (continued)*Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**RSM AUSTRALIA PARTNERS****J S CROALL**

Partner

Dated: 28 September 2021
Melbourne, Victoria